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## Issues, Challenges, and Trends, that Facing Hospitality Industry

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**Abstract:** This article presents findings of issues, challenges and trends that hospitality industry might face in the year ahead respectively. Top issues that will influence the global hospitality industry in the year ahead include sustainable development calls for green hospitality, labor cost, multicultural issues and higher education. Challenges that facing hospitality industry will include operating issues, marketing issues, technological issues and economic issues. Identified ten key trends that, taken together, we believe will shape the hospitality sector this year and for years to come include rapid growth in vacation ownership, integration & globalization, new management.

**Key words:** Issues; Challenges; Trends; Hospitality Industry

### 1. ISSUES IN HOSPITALITY INDUSTRY

#### 1.1 Sustainable Development Calls for Green Hospitality

Going green is a white-hot issue in the hospitality-design industry. People are beginning to look at sustainable solutions in a whole new way. The perception of green has changed; it has gone from a fringe movement to mainstream.

As a sign of its sweeping popularity, one of the best attended sessions at the recent Lodging Conference in Phoenix was: "Going Green: Environmentally Profitable Hotels." Some of the pioneers of the green hospitality movement, there were to share their challenges and triumphs in working toward a carbon constrained future. The basis of sustainable hospitality operation is a three-part balance, expressed as "profits, people, and planet." By taking those three elements into account, thus, a sustainable green hospitality development program becomes economically viable, as well as beneficial to the community and environment.

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### **1.2 Labor Cost Issues**

In 2005, labor expenses remained the largest single expense item for hospitality managers, accounting for 44.6 percent of total operating costs. Consequently, any trend or issue that could potentially impact labor costs must be taken seriously by hospitality owners and managers alike. "Due to the magnitude of the expense, labor costs and issues have always consumed a substantial portion of the time and efforts of hospitality managers. Now, with news of union contract negotiations, changes to immigration laws, and proposed legislation to increase the minimum wage, hospitality managers are on edge.

The cost of labor is the biggest expense in all categories of hotels. Even with the advent of select-service properties, hospitality developers cannot avoid the human component of hospitality operations. While managing labor expenses is important, hospitality managers are also aware that employees are an integral part of the lodging experience. The interaction between hospitality guests and employees has a dramatic impact on the customer experience and the success of the business operation. Therefore, a fine balance must be drawn between cost controls and guest satisfaction.

### **1.3 Multicultural Issues**

The newest trends and topics surrounding hospitality research and development is the management of multicultural talent and the political landscape affecting the hospitality industry. Franchise is becoming the biggest industry in the world, the success of franchise lie in the understanding of ownership, internal and external customer- and workforce-related - and top legislative matters, insights of marketing and promoting. With the development of globalization, multicultural issues are facing and disturbing the industry operators.

Bringing the far corners of the world together is part and parcel of what the hospitality sector does. Blending amenities to cater for the needs of the world's different cultures is central to success for large, international hospitality chains. Cultural issues have never before been such a crucial determinant of how a large hospitality should operate. In some Asian cultures, for example, eye contact is not sought, as it can make guests feel uncomfortable, while in Western tradition it is equated with openness and honesty. This could be important in defining how staff addresses themselves to certain Asian guests.

### **1.4 Higher Education**

Tremendous changes are taking place in hospitality industry which poses several challenges for transformation of the whole educational process including educational curricula, learning materials, instructional practices and education stakeholders. Education systems and institutions must take the challenges of the knowledge economy seriously. This would, however, include restructuring the learning process to reflect the use of information in the real world, changing the role of the educator from presenter of pre-packaged facts to facilitator of active learning and transforming the library specialist to an active collaborator in curriculum planning for effective use and availability of information resources. Indeed, educators need to realize that teaching is not telling, that learning is not absorbing and that knowledge is not static and, in turn, reflect these to their instruction mechanisms and student appraisal systems.

The new educational providers have risen in order to fill the undeniable demand for open, flexible, distance and life-long learning and include for-profit universities; corporate universities (e.g. the Accor University, the Kellogg University, McDonalds Hamburger University); virtual universities (such as Universities 21, a collaboration project of Thomson Learning and Universities 21, Singapore and University in the UK); and multinational organizations such as Microsoft, whose primary business is not education but who control facilities central to it.

## **2. CHALLENGES CONFRONTING THE HOSPITALITY INDUSTRY**

### **2.1 Operating Issues**

#### **2.1.1 Labor Shortages**

Labor shortages and their impact on the industry in almost every geographic location are consistently among the most difficult challenges noted by hotelers. In many communities, hospitality expansion is limited not by capital, but rather by human resources. A shrinking labor force is the number one challenge facing the global hospitality industry, according to the International Society of Hospitality Consultants, which recently convened to brainstorm world issues and rank them according to importance.

The problem of attracting and retaining qualified workers, once an issue only in an isolated number of markets, is increasingly becoming a global challenge. Demography, wage levels, failure to adequately address worker satisfaction and a reputation for long hours and low pay are all cited as contributing factors. Creative hospitality professionals have begun to develop innovative strategies for capturing and keeping high quality workers.

#### **2.1.2 Cost Containment**

Hospitalities are increasingly challenged to find ways to reduce costs without sacrificing the quality standards imposed to consistently meet guest expectations. The idea of “doing more with less” requires managers to think about ways to operate more effectively (in other words to “do the right things in the right way”) and to examine possibilities for cost savings that will not affect the guest’s perception of value.

#### **2.1.3 Increased Competition**

Hotels everywhere indicate that their community is overbuilt; there are too many available hospitality rooms relative to the guests desiring to rent them. The resulting competition, which often involves price cutting in efforts to provide greater value to guests, erodes still further the profits generated.

A steep fall in occupancy ratio in the wake of the global slowdown and tight competition among hospitality operators in a shrinking market have brought down hospitality room rents drastically across the country. The competition in Europe has resulted in low occupancies and as a result, the average room rate has taken a beating of almost 30 percent in all major leisure markets. Rooms are now sold not only for less but also bundled with packages, like breakfast, airport transfers or a day’s sightseeing. Competition calls for innovation in hospitality industry.

### **2.2 Marketing Issues**

#### **2.2.1 Market Segmentation and Overlapping Brands**

Market segmentation is increasing as lodging chains focus on a specific niche of travelers. Additionally, brands overlap. Some industry observers are concerned that franchisers may expand their number of brands to the point that investors who purchase from the same franchiser will be in direct competition with themselves! Also, as the number of brands increases, the ability of consumers to differentiate between them decreases.

#### **2.2.2 Increased Guest Sophistication**

Consumers have become more sophisticated and, as a result, so have the types of products and services

that they desire. Amenities, including business centers, exercise and recreational facilities, and guest-room innovations, increase costs but, if not carefully selected, may not appeal to many guests being served by a specific property.

## **2.3 Technological Issues**

The challenges of keeping up with the fast pace of technology is difficult and expensive.

### **2.3.1 Interactive Reservation Systems**

Guests can now use the Internet's interactive reservation systems, and hospitality companies are sometimes criticized for the (alleged) large number of keyboard clicks required to make a reservation.

The number of reservations made via the Internet continues to increase. Surveys in the United States show that currently 20% of all reservations are made through the Internet, and this percentage is increasing every year. With such high percentage of reservations done through the Internet, a hospitality cannot afford not being connected. If the potential guest cannot book online, a reservation will be made at the competitor's web site.

### **2.3.2 Guest-room Innovations**

Multiple telephone lines, interactive opportunities for ordering room service, and guest-room check-out are examples of amenities that guests increasingly desire, but that are very expensive to install and implement.

### **2.3.3 Data Mining**

This technology allows marketing and sales personnel to find new ways to use guest-related data. (data mining: using technology to analyze guest and other related data to make better marketing decisions.)

### **2.3.4 Yield Management**

This computerized process allows managers to match guest demand with room rates (high demand means higher rates because of lessened discounts; low demand result in higher discounts.) (yield management: demand forecasting systems designed to maximize revenue by holding rates high during times of high guest-room demand and by decreasing room rates during times of lower guest-room demand). Yield management is critical to maximizing a hospitality's profitability. The concept are applied to every revenue department and across department. The yield manager's job is to maximize the revenue per available room by selling rooms to the right customers, at the right price, at the right time.

## **2.4 Economic Issues**

### **2.4.1 Dependence upon the Nation's Economy**

When the nation's economy is good, business travel generally increases. Hospitality occupancy rates and rack rates increase, which results in higher profit levels. The reverse is also true: business travel slows when the economy slow. Then occupancy and rack rates decrease. Discounts to increase occupancy are offered, which yield lower revenues and profit decreases.

### **2.4.2 Globalization**

Globalization impacts the lodging industry dramatically because it influences the extent of which people

travel both within the country and around the world. Therefore, it is not only the economy of the nation, but also the economies of individual countries, that play an increasingly larger role in the financial success of lodging properties.

To compete, they must pay closer attention to the trends of globalization. The industry must reflect the requirements of the global village in many aspects of its operations, including food, services, amenities, staffing policies and training.

### **3. TRENDS IN HOSPITALITY INDUSTRY**

#### **3.1 Rapid Growth in Vacation Ownership**

Vacation ownership is the fastest growing segment of the lodging industry and is likely to continue growing as the baby boomers enter their fifties and sixties in the U.S.A.. The World Tourism Organization has called timeshares one of the fastest growing sectors of the travel and tourism industry. Hospitality companies are adding brand power to the concept with corporations like Marriott Vacation Club International, the Walt Disney Company, Hilton Hotels, Hyatt Hotels, Promus' Embassy Suites, Inter-Continental and ever Four Seasons participating in an industry that has grown rapidly in recent years.

Resort Condominiums International (RCI), the largest vacation ownership exchange (that allows members to exchange vacations with other locations), has more than 2.8 million member families living in 200 countries. Three thousand seven-hundred participating resorts and members can exchange vacation intervals for vacations at any participating resort. North America remains the global leader with nearly half of all the participating resorts and more than 2 million owners. Europe is second with approximately 22 percent of owners worldwide and more than 1,000 resorts. Timeshare resorts are found around the globe in popular vacation areas near beaches, rivers, lakes, and mountains, and even in major cities.

#### **3.2 Integration & Globalization**

Vertical integration is a trend that began a few years ago. Lodging companies realized that guests' accommodation needs were not just at one level; rather, they seemed to vary by price and facilities/amenities. Almost all major lodging companies now have properties in each segment of the market.

The future of the lodging industry involves globalization. Companies cannot grow unless they venture beyond the United States. American hospitality chains and their management techniques were in demand by many developing countries who wanted premium-name hotel.

An extensive survey of the condition of the hospitality would have shown that substantial amounts of money would be necessary to maintain the hospitality's condition.

The hospitality industry is thus at the very core of the globalization of international business. Hospitality companies therefore need to consider the implications of the global context in which they operate and must be prepared to address the questions that arise from this changing environment. Globalization will ultimately touch virtually all aspects of the hospitality industry. Increasingly, customers, management processes, employees, products, and sources of capital will be competed for and will move across national boundaries. Competition in the future will come from global entities with the advantages that globalization brings.

#### **3.3 New Management**

The complex forces of capacity control, safety and security, capital movement, and technology issues

will require a future management cadre that is able to adapt to rapid-paced change across all the traditional functions of management.

The growing complexity of the customer/employee interaction, driven by technology and the information age, will shape human resources needs in the future. The customer, armed with more information, will expect frontline and other hospitality staff to be at least as knowledgeable about the firm's offerings as they are themselves. This will be difficult in an industry characterized by low-skilled, low-paid personnel and a high degree of cultural and behavioral diversity among its employees. Visioning the future: major forces driving change in the hospitality industry' considers seven areas decisive to the future development of the industry. Each is examined to determine the scope and complexity of the issue and the timing of its impact. That is assets and capital, health and safety, new management, marketing, distribution and capacity management, technology, sustainable development, social issues

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